

## Message Text

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72

ACTION EB-11

INFO OCT-01 ARA-11 NEA-10 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 SCEM-02 TAR-02 PA-03 PRS-01 USIA-12 RSR-01

/151 W

----- 029082

R 102030 Z MAY 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9763

INFO AMEMBASSY BOGOTA

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

AMEMBASSY TEHRAN

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EO 11652: N/A

TAGS: ECON VE

SUBJECT: RAND REPORT LATIN AMERICA IN 1970 S

PASS TREASURY, COMMERCE AND OPIC

REF: RAND REPORT R-1067- DOS DECEMBER 1972

1. EMBASSY HAS REVIEWED RAND REPORT LATIN AMERICA IN 1970 S AND FINDS ASPECTS FOLLOWING TWO ARTICLES HAVE PARTICULAR RELEVANCE TO VENEZUELAN ECONOMIC POLICY: "EVALUATING FOREIGN INVESTMENT IN LATIN AMERICA"- CRITICS OF FOREIGN INVESTMENT TEND TO LOOK ONLY AT NET CAPITAL FLOW AND ARE ABLE TO SHOW THAT FLOW IS OUTWARDS IN FAVOR OF INVESTORS. PROPONENTS OF FOREIGN  
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INVESTMENT FOCUS ON TRADE ACCOUNT TO SHOW THAT IMPORT SUBSTITUTION AND PROMOTION OF EXPORTS REFLECT A NET CONTRIBUTION TO BALANCE OF PAYMENTS TO HOST COUNTRY. OF MORE IMPORTANCE IS EXCESSIVE PROFITS ASSOCIATED WITH FOREIGN INVESTMENT DISGUISED THROUGH OVER-PRICING IMPORTED INPUTS, WHICH ENABLES FOREIGN SUBSIDIARIES TO HAVE EFFECTIVE PROFITS CONSIDERABLY GREATER THAN DECLARED. REALIZATION THAT FOREIGN INVESTORS MAY BE EARNING EXCESSIVE PROFITS HAS LED ANDEAN PACT COUNTRIES TO INCLUDE 14 PCT OF CAPITAL LIMITATION ON PROFIT REMISSION IN DECISION 24 OF AGREEMENT OF CARTAGENA. (HOWEVER SUBSIDIARIES MAY BE ABLE TO EVADE LIMITATIONS BY OVER-PRICING IMPORTS, UNLESS THEY ARE REQUIRED TO DECLARE COST OF IMPORTS COMPARED WITH THOSE PRODUCTS ON WORLD MARKET.)

2. "POLICYMAKING FOR NATIONAL ECONOMIC GROWTH"- ECONOMIC GROWTH IN LATIN AMERICA HAS TAKEN PLACE AT MUCH FASTER RATE IN INDUSTRIAL SECTOR RATHER THAN PRIMARY SECTORS. HOWEVER, SINCE INDUSTRY TENDS TO BE NET FOREIGN EXCHANGE CONSUMER RATE OF GROWTH OF COUNTRY IS LIMITED BY FOREIGN EXCHANGE EARNING CAPACITY OF PRIMARY SECTOR, ESPECIALLY AFTER IMPORT SUBSTITUTION PHASE OF DEVELOPMENT IS COMPLETED. FOREIGN AID AS WELL AS FOREIGN INVESTMENT DO NOT ALLEVIATE SITUATION BUT ONLY POSTPONE DAY OF RECKONING. ONLY IF FURTHER INDUSTRIALIZATION TAKES PLACE IN EXPORT INDUSTRIES DOES POSSIBILITY EXIST FOR GROWTH RATE TO BE MAINTAINED AND NOT BE INHIBITED BY FOREIGN EXCHANGE CONSTRAINTS.

3. COMMENT: MESSAGE IS CLEAR FOR VENEZUELA. WHILE IT STILL HAS CUSHION OF FOREIGN EXCHANGE DERIVED FROM PETROLEUM, INDUSTRIAL INVESTMENT SHOULD BE IN NON-TRADITIONAL EXPORT INDUSTRIES RATHER THAN IMPORT SUBSTITUTION, WHICH CONSUMES MORE FOREIGN EXCHANGE THAN IT EARNS OR SAVES. IN FACT IT COULD BE ARGUED THAT INVESTMENT DESIGNED ONLY FOR INTERNAL CONSUMPTION SHOULD BE DISCOURAGED.

4. VENEZUELA'S EXPORT INCENTIVE LEGISLATION IS CORRECT IN THAT IT IS DESIGNED TO ENCOURAGE INDUSTRY WHICH WOULD LIMITED OFFICIAL USE

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EARN RATHER THAN CONSUME FOREIGN EXCHANGE. WHILE MOST FOREIGN INVESTMENT (ALMOST BY DEFINITION) IS PROFITABLE FOR THE INVESTOR, ONLY THAT WHICH IS DESIGNED TO INCREASE EXPORTS IS BENEFICIAL TO VENEZUELA AT ITS CURRENT STAGE OF DEVELOPMENT.

5. SINCE OPIC HAS AS ONE OF ITS CRITERIA POSITIVE EFFECT

ON U. S. BALANCE OF PAYMENTS, THERE EXISTS A DICHOTOMY  
IN POLICY WITH DEVELOPMENT OBJECTIVE OF VENEZUELA WHICH  
FAVORS FOREIGN EXCHANGE EARNING INVESTMENT.  
MCCLINTOCK

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NMAFVVZCZ

\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
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**Draft Date:** 10 MAY 1973  
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**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Status:** <DBA CORRECTED> mcm 980112  
**Subject:** RAND REPORT LATIN AMERICA IN 1970 S  
**TAGS:** ECON, VE  
**To:** BOGOTA  
EB  
LA PAZ  
LIMA  
QUITO  
SANTIAGO  
SECSTATE WASHDC

TEHRAN

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